

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 MMO-01 SP-02 USIA-06 AID-05  
EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01  
L-03 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 DOE-11 SOE-02 AGRE-00 /116 W  
-----117592 151150Z/10

R 150940Z MAR 78

FM AMEMBASSY ANKARA

TO SECSTATE WASHDC 1056

INFO AMCONSUL ADANA

AMEMBASSY ATHENS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL ISTANBUL

AMCONSUL IZMIR

AMEMBASSY NICOSIA

AMEMBASSY PARIS

USMISSION GENEVA

USMISSION USNATO

USCINCEUR

CINCUSAFE

USDOCOSOUTH NAPLES

USDOCOLANDSOUTHEAST IZMIR

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USEEC

USOECD

USDOCOSOUTH FOR INTAF

E.9. 11652: N/A

TAGS: EFIN, TU

SUBJ: TURKEY'S 1977 BALANCE OF PAYMENTS PERFORMANCE AND 1978

PROJECTIONS--CERP 0102

REF: 77 ANKARA 9418

1. THE FOLLOWING TABLE GIVES TURKEY'S BALANCE OF PAY-

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MENTS RESULTS FOR 1976 AND 1977 AND THE ECEVIT GOVERNMENT'S PROGRAM FOR 1978:

(READ IN THREE COLUMNS: 1976; 1977 AND PROJECTED 1978)

AMOUNTS IN MILLIONS OF US DOLLARS)

A. MERCHANDISE TRADE

1. EXPORTS(FOB) 1,960; 1,753; 2,550

2. IMPORTS (CIF) -5,129; -5,796; -5,000

3. TRADE BALANCE -3,169; -4,043; -2,450

B. SERVICES AND INVISIBLES

1. WORKERS' REMITTANCES 983; 982; 1,300

2. INTEREST ON FOREIGN DEBT -217; -3177; -520

3. PROFIT TRANSFERS -83; -116; -85

4. TOURISM(NET) -27; -65; 35

5. OTHER (NET) 212; 168; 370

A PLUS B. CURRENT ACCOUNT BALANCE -2,301; -3,391; -1,450

C. LONG-TERM CAPITAL

1. AMORTIZATION PAYMENTS -119; -214; -640

2. PRIVATE CAPITAL 23; 67; 75

3. PROJECT CREDITS 485; 310; 800

4. OTHER 141; 106; 105

5. LONG-TERM CAPITAL BALANCE 535; 269; 340

A PLUS B PLUS C. BASIC BALANCE -1,766; -3,122; -1,110

D. FINANCING

1. USE OF RESERVES 112; 540; --

2. IMF CREDIT 149; 14; --

3. SHORT AND MEDIUM CAPITAL 1,520; 2,568; 1,110

4. ERRORS AND OMISSIONS -15; --; --

2. TRADE ACCOUNT: EXPORTS FELL BY 10.5 PERCENT IN 1977 COMPARED WITH THE PREVIOUS YEAR WHILE IMPORTS INCREASED BY 13 PERCENT. THE EXPORT SHORTFALL RESULTED PRIMARILY FROM A 52 PERCENT DROP IN COTTON EXPORTS DUE TO REDUCED PRODUCTION (\$438 MILLION TO \$210 MILLION) AND A LIMITED OFFICIAL USE

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30 PERCENT DECREASE IN TOBACCO EXPORTS BECAUSE THE MINIMUM EXPORT PRICE WAS TOO HIGH FOR MOST OF THE YEAR (\$25) MILLION TO \$176 MILLION). THE TOBACCO EXPORT PRICE WAS LOWERED IN OCTOBER 1977. OVERALL EXPORTS OF AGRICULTURAL PRODUCTS DECLINED BY 17 PERCENT; EXPORTS OF INDUSTRIAL PRODUCTS WERE OFF BY ONLY 1.5 PERCENT (\$595 MILLION TO \$586 MILLION) WHILE MINING SECTOR EXPORTS INCREASED BY 14.5 PERCENT (\$110 MILLION TO \$126 MILLION).

3. THE INCREASED IMPORT BILL WAS SPURRED BY EXPANDING DEMAND FOR PETROLEUM PRODUCTS WHICH IS PARTLY ATTRIBUTABLE TO GHE GOVERNMENT'S POLICY OF SUBSIDIZED OIL PRICES. THE CRUDE OIL BILL WAS UP 15 PERCENT (TO \$1,151 MILLION), ALTHOUGH IMPORT VOLUME WAS UP ONLY 2 PERCENT. DOMESTIC CONSUMPTION OF OIL PRODUCTS EXCEEDED TURKISH REFINERY CAPACITY FOR THE FIRST TIME IN YEARS. THIS RESULTED IN A JUMP OF 173 PERCENT IN THE VALUE OF REFINED PETROLEUM IMPORTS (TO \$284 MILLION). THE IMPORT VOLUME OF FUEL OIL AND LUBRICANTS ROSE 92 PERCENT.

4. IMPORTS OF RAW AGRICULTURAL PRODUCTS ROSE (RICE,

77 PERCENT; WOOL, 60 PERCENT; COFFEE, 109 PERCENT) WHILE PROCESSED AGRICULTURAL IMPORTS (LARGELY FATS AND OILS) WERE DOWN 60 PERCENT (FROM \$147 MILLION TO \$58 MILLION). OTHER KEY IMPORT CATEGORIES SHOWING INCREASES WERE FERTILIZERS (118 PERCENT), IRON AND STEEL (26 PERCENT), CHEMICALS (18 PERCENT) AND MOTOR VEHICLES (11 PERCENT). DECLINES WERE REGISTERED IN IMPORTS OF TEXTILES (13 PERCENT), METALLIC GOODS (44 PERCENT) AND MACHINERY (LESS THAN 1 PERCENT).

5. IN THE SERVICE ACCOUNT, WORKERS REMITTANCES WERE STAGNANT AT SLIGHTLY LESS THAN \$1 BILLION FOR THE SECOND CONSECUTIVE YEAR. OUTFLOWS FROM TOURISM, PROFIT REMITTANCES AND INTEREST PAYMENTS INCREASED 52 PERCENT. LIMITED OFFICIAL USE

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CNET. THE CURRENT ACCOUNT CONTINUED TO DETERIORATE AS THE NET INCOME FROM INVISIBLES HAS NOT KEPT UP WITH THE INCREASING TRADE DEFICIT.

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6. NET LONG-TERM CAPITAL INFLOWS DECLINED BY ABOUT 50 PERCENT TO \$269 MILLION DUE TO INCREASED AMORTIZATION PAYMENTS AND SUBSTANTIALLY LOWER DISBURSEMENTS ON PROJECT CREDITS.

7. THE OVERALL PAYMENTS DEFICIT WAS FINANCED PRIMARILY BY ACCUMULATING ARREARS ON SHORT-TERM SUPPLIERS' CREDITS.

ARREARS TOTALLED \$1.7 BILLION THROUGH YEAR-END 1977.

OTHER SOURCES OF FINANCING INCLUDED A RESERVE DRAWDOWN OF \$540 MILLION, ACCEPTANCE CREDITS OF \$410 MILLION, AND A NET INFLOW OF \$275 MILLION IN CONVERTIBLE LIRA DEPOSITS. THE BALANCE OF FINANCING IS ACCOUNTED FOR BY

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OTHER SHORT-TERM CREDITS, ERRORS AND OMISSIONS.

8. THE 1978 PROGRAM: THE ECEVIT GOVERNMENT'S 1978 PROGRAM HAS NOT YET BEEN PUBLISHED. OUR COMMENTS ON THIS PROGRAM WITH REGARD TO THE BALANCE OF PAYMENTS ARE DRAWN FROM CONVERSATIONS WITH OFFICIAL SOURCES. THIS PROGRAM PROJECTS A 45 PERCENT INCREASE IN EXPORT EARNINGS TO \$2.55 BILLION AND A 14 PERCENT DROP IN IMPORTS TO \$5 BILLION. THE RESULTING TRADE BALANCE OF MINUS \$2.45 BILLION WOULD BE AN IMPROVEMENT OF \$1.6 BILLION OR ALMOST 40 PERCENT OVER 1977.

9. INCREASED EXPORTS ARE PROJECTED TO OCCUR IN ALL SECTORS OF THE ECONOMY: AGRICULTURAL SECTOR EXPORTS UP 47PERCENT (\$1,041 MILLION TO \$1,534 MILLION), MINING SECTOR UP 39 PERCENT (\$126 MILLION TO \$175 MILLION), AND PROCESSED AND MANUFACTURED EXPORTS UP 44 PERCENT (\$586MILLION TO \$841 MILLION). THE EXPORT TARGETS ARE PROBABLY OPTIMISTIC SINCE THEY CALL FOR INCREASES IN EVERY EXPORT CATEGORY, INCLUDING INCREASES IN EXCESS OF 100PERCENT IN EXPORTS OF COTTON (FROM \$210MILLION IN 1977 TO \$435 MILLION IN 1978), CHEMICAL PRODUCTS,(\$34MILLION TO 73 MILLION), IRON AND STEEL PRODUCTS (15 MILLION TO \$43MILLION), NON-FERROUS METAL PRODUCTS (\$20 MILLION TO \$57MILLION) AND CEMENT PRODUCTS (\$9MILLION TO 28MILLION). SUBSTANTIAL EXPORT INCREASES ARE ALSO PROJECTED IN CEREALS (\$120MILLION TO \$255 MILLION), TOBACCO (\$176MILLION TO \$255 MILLION), AND TEXTILES (\$260 MILLION TO 301MILLION).

10. THE TURKISH INDUSTRIALISTS AND BUSINESSMEN'S ASSOCIATION (TUSIAD) CONSIDERS THE PROGRAMMED EXPORT TARGETS UNREALISTIC AND DOES NOT EXPECT 1978 EXPORTS TO EXCEED \$2.2 BILLION. THEY PROJECT AGRICULTURAL SECTOR EXPORTS OF \$1.4 BILLION, MINING SECTOR EXPORTS OF \$110 MILLION, AND INDUSTRIAL EXPORTS OF \$690 MILLION. OF COURSE, TUSAID'S PROJECTIONS WERE MADE IN MID-FEBRUARY BEFORE THE DEVALUATION AND OTHER ASPECTS OF THE ECEVIT GOVERNMENT'S STABILIZATION PROGRAM WERE KNOWN(E.G., THE NEW FOREIGN TRADE REGULATIONS

WON'T BE ANNOUNCED UNTIL THE END OF MARCH).

11. IMPORT TARGETS FOR 1978: THE PLANNED IMPORT REDUCTIONS ARE CONCENTRATED IN RELATIVELY FEW CATEGORIES. THE LARGEST REDUCTIONS IN LIMITED OFFICIAL USE

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TERMS OF DOLLAR VALUE OCCUR IN MACHINERY (DOWN \$330MILLION), IRON AND STEEL PRODUCTS (DOWN \$190MILLION), CHEMICAL PRODUCTS (DOWN \$117 MILLION) AND AGRICULTURAL PRODUCTS (DOWN \$71MILLION) IMPORT INCREASES ARE PLANNED FOR CRUDE OIL (UP 5.5PERCENT TO \$1,215MILLION) AND PROCRESSED AGRICULTURAL PRODUCTS(UP 41PERCENT TO \$82 MILLION).

12. THE GOT EXPECTS THE DEVALUATION TO STIMULATE AN INCREASED INFLOW OF WORKER'S REMITTANCES TO \$1.3 BILLION. THE NEW TRAVEL RESTRICTIONS SHOULD DECREASE TOURISM BY TURKISH CITIZENS AND YEILD A POSITIVE NET TOURISM FLOW. HOWEVER, INTEREST PAYMENTS ON DEBT WILL JUMP 64PERCENT TO \$520MILLION. THE PROJECTED \$1 BILLION NET INFLOW IN INVESIBLES WOULD YIELD A CURRENT ACCOUNT DEFICIT OF \$1,450 MILLION. TUSIAD'S MORE PESSIMISTIC PROJECTIONS CALL FOR A CURRENT ACCOUNT DEFICIT OF \$1,940 MILLION.

13. THE CAPITAL ACCOUNT CALLS FOR DISBURSEMENTS ON PROJECT CREDITS TOTALLING \$800MILLION. THIS SEEMS OPTIMISTIC GIVEN TURKEY'S PAST PROBLEMS IN IMPLEMENTING DEVELOPMENT PROJECTS. THE 1977 PROGRAM CALLED FOR \$550MILLION IN PROJECT CREDIT DISBURSEMENTS WHILE \$310 MILLION WAS ACTUALLY DISBURSED.

14. THE PROJECTED FINANCING REQUIREMENT OF \$1,110MILLION IS OBVIOUSLY IN ADDITION TO ANY REFINANCING OF THE ESTIMATED \$1.2 TO \$1.7 BILLION IN COMMERCIAL ARREARS FROM 1977.(THE TOTAL TO BE REFINANCED DEPENDS ON WHETHER THE ESTIMATED \$500MILLION IMPORTS ALREADY PAID FOR THROUGH THE BLACK MARKET IS INCLUDED). AN IMF STAND-BY WOULD PROBABLY NOT EXCEED SDR 100MILLION(\$US 120MILLION) ASSUMING THE SECOND AMENDMENT TO THE IMF ARTICLES WILL BE IN EFFECT AND TURKEY COULD DRAW ITS FIRST AND SECOND CREDIT TRANCES DURING 1978(TURKEY'S NEW IMF QUOTA IS SDR 200MILLION.) THE COMPENSATORY FINANCING FACILITY COULD PROVIDE UP TO \$60 MILLION. IMF FINANCING OF UP TO \$180MILLION WOULD LEAVE AN UNFINANCED GAP OF AT LEAST \$930MILLION. THIS GAP WOULD HAVE TO BE FINANCED BY A COMBINATION OF MEDIUM-TERM COMMERCIAL BANK CREDITS, CREDITS FOR CRUDE OIL IMPORTS FROM THE USSR OR SOME OTHER OIL SUPPLIER, OR A FURTHER DRAWDOWN OF RESERVES (WHICH TOTALLED \$571 MILLION ON FEBRUARY 24; \$149MILLION IN GOLD AND \$422 MILLION IN FOREIGN EXCHANGE). OF COURSE THE GAP COULD ALSO BE REDUCED BY FURTHER RESTRICTING IMPORTS, WHICH MAY WELL BE A POINT OF CONTENTION IN THE CURRENT IMF NEGOTIATIONS. SPIERS

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## Message Attributes

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